UNH Center For Venture Research: 2005 Angel Market Exhibits Modest Growth

Lori Wright

Follow this and additional works at: https://scholars.unh.edu/news

Recommended Citation
https://scholars.unh.edu/news/1148

This News Article is brought to you for free and open access by the Administrative Offices at University of New Hampshire Scholars' Repository. It has been accepted for inclusion in Media Relations by an authorized administrator of University of New Hampshire Scholars' Repository. For more information, please contact nicole.hentz@unh.edu.
UNH Center For Venture Research: 2005 Angel Market Exhibits Modest Growth
UNH Center For Venture Research: 2005 Angel Market Exhibits Modest Growth

Health Care/Medical Sector Is Hot; Women Entrepreneurs Cashing In On Capital

Contact: Lori Wright
603-862-0574
UNH Media Relations

March 27, 2006

EDITORS AND REPORTERS: Jeffrey Sohl, director of the UNH Center for Venture Research and professor of entrepreneurship and decision sciences, is available to discuss the results of the 2005 Angel Investor Market Analysis and the angel market overall. He can be reached at 603-862-3341 or jesohl@christa.unh.edu.

DURHAM, N.H. – The angel investor market showed signs of modest growth in 2005, with total investments of $23.1 billion, an increase of 2.7 percent over 2004, according to a new report released by the Center for Venture Research at the University of New Hampshire Whittemore School of Business and Economics.

“A total of 49,500 entrepreneurial ventures received angel funding in 2005, a 3.1 percent increase from 2004. The number of active investors in 2005 was 227,000 individuals, with an average of four to five investors joining forces to fund an entrepreneurial start-up. This continued modest, and sustainable, rise in total investments is encouraging,” according to Jeffrey Sohl, director of the UNH Center for Venture Research (CVR) and professor of entrepreneurship and decisions sciences.

A sector-by-sector analysis shows that healthcare services/medical devices and equipment garnered the largest angel investments, with 20 percent of total angel investments in 2005, followed by software (18 percent) and biotech (12 percent). “This market level sector diversification indicates a robust investment pattern. Since the angel market is essentially the spawning grounds for the next wave of high growth investments, this sector diversification provides an indication of investment opportunities that will be available for later stage institutional investors,” Sohl said.

Angel investments helped create 198,000 new jobs in the United States in 2005, or four jobs per angel investment. However, this tracks jobs created at the time of the angel investment and thus it is likely that this job creation of 198,000 is the minimum number of jobs created by angels in 2005. “Since the angel investment is used by the venture to fuel growth, launch new products and explore new markets, it is highly likely that the number of jobs created by the angel investment will increase as the firm grows,” according to Sohl.

Angels continue to be the largest source of seed and start-up capital, with 55 percent of 2005 angel investments in the seed and start-up stage. This preference for seed and start-up investing is followed closely by post-seed/start-up investments of 43 percent. The increase in post-seed/start-up investing continues a trend that began in 2004 and represents a 10
percent increase in historical levels.

“While angels are not abandoning seed and start-up investing, it appears that market conditions, and the preferences of large formal angel alliances, are resulting in angels engaging in more later-stage investments. New, first sequence, investments represent 70 percent of 2005 angel activity, indicating that some of this post seed investing is in new deals. This shift in investment strategies toward post seed investments reduces the proportional amount of seed and start-up capital. This restructuring of the angel market has in turn resulted in fewer dollars available for seed investments, thus exacerbating the capital gap for seed and start-up capital in the United States,” Sohl said.

Women-owned ventures account for 8.7 percent of the entrepreneurs seeking angel capital and 33 percent of these women entrepreneurs received angel investment in 2005. “Thus, it appears that while the number of women seeking angel capital is low, the percentage that secure angel investments is higher than the overall market yield rate,” he said.

In contrast, minority-owned firms represent 14.2 percent of the entrepreneurs that presented their business concept to angels, yet the yield rate for these minority-owned firms was 7.6 percent, which is substantially below the general yield rate. “These data indicate that not only do more minority-owned firms need to attract the attention of angel investors, but minority-owned firms, given the low yield rates, need to increase their ‘investor readiness’ through education and networking,” Sohl said.

“If the angel market is to achieve sustainable growth, there needs to be a reasonable augmentation in active investors, and thus, level of participation is an important consideration. While the number of individuals that are members of organized angel groups is increasing, there is a larger percentage of latent angels (individuals who have the necessary net worth, but have not made an investment),” according to Sohl.

In 2005, 62.3 percent of the members of angel groups were latent angels, as compared to 55 percent in 2004 and 48 percent latent investors in 2003. “This increase in latent investors over time indicates that while many high net worth individuals may be attracted to the early stage equity market, they have not converted this interest into direct participation. This lack of active involvement may be the result of the current trend to form angel groups, rather than meeting the more basic systemic need for educational programs and research to move the latent angel to the active investor,” he said.

The Center for Venture Research has been conducting research on the angel market since 1980. The CVR’s mission is to provide an understanding of the angel market and the critical role of angels in the early stage equity financing of high growth entrepreneurial ventures. Through the tenet of academic research in an applied area of study, the CVR is dedicated to providing reliable and timely information on the angel market to entrepreneurs, private investors and public policymakers. The Center for Venture Research also provides seminars to angels and entrepreneurs, and research reports on aspects of the angel market are also available. For more information visit www.unh.edu/cvr or contact the CVR at 603-862-3341.
